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GARY PIERCE  
PAUL NEWMAN  
SANDRA D. KENNEDY  
BOB STUMP


IN THE MATTER OF THE APPLICATION OF  
CORONADO UTILITIES, INC. FOR A  
DETERMINATION OF THE FAIR VALUE OF  
ITS UTILITY PLANT AND PROPERTY AND  
FOR INCREASES IN ITS WATER AND  
WASTEWATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO. SW-04305A-09-0291

**STAFF'S NOTICE OF FILING  
DIRECT TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby files the  
Direct Testimony of Staff Witnesses Gary T. McMurry and Katrin Stukov, in the above-referenced  
matter.

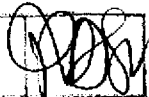
RESPECTFULLY SUBMITTED this 12<sup>th</sup> day of January 2010.

  
For Ayesha Vohra, Attorney  
Legal Division  
Arizona Corporation Commission  
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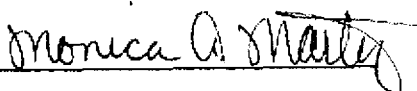
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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MACORONADO

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORONADO UTILITIES INC FOR AN )  
INCREASE IN ITS WATER RATES )  
FOR CUSTOMERS WITHIN PINAL )  
COUNTY, ARIZONA )  
\_\_\_\_\_)

DOCKET NO. SW-04305A-09-0291

DIRECT

TESTIMONY

OF

GARY T. MCMURRY

PUBLIC UTILITIES ANALYST IV

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

FEBRUARY 12, 2010

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**EXECUTIVE SUMMARY  
CORONADO UTILITIES, INC.  
DOCKET NO. SW-04305A-09-0291**

Coronado Utilities Inc. ("Coronado" or "Company") is an Arizona for-profit Class B public service corporation providing wastewater service to approximately 1,300 customers in the unincorporated town of San Manuel, Arizona. On June 3, 2009, Coronado filed a general rate application. The application shows that Coronado posted a \$154,497 adjusted operating income for the test year that ended December 31, 2008. Coronado requests a \$156,498 revenue increase to provide a \$260,297 operating income for a 7.36 percent rate of return on a \$3,536,648 fair value rate base.

The testimony of Mr. Gary T. McMurry presents Staff's recommendation in the areas of rate base, operating income, revenue requirement and rate design. Staff recommends a \$118,985 (13.47 percent) revenue increase to provide a 7.36 percent rate of return on an original cost rate base of \$3,531,141. Staff's adjustments resulted in a \$5,507 reduction in rate base. Staff's recommendation reflects two rate base adjustments and four operating income adjustments.

The present rate design consists of a monthly fixed charge for residential accounts, which make up the majority of the customers, and a smaller monthly charge combined with a volumetric rate (based on water use) for commercial and school customers. Mobile home parks have seasonal (summer and winter) rates. The summer rate is a monthly fixed charge, and the winter rate is a combined monthly fixed charge and volumetric rate.

The Company proposes to continue the existing rate structure (with the exception of effluent sales) and increase the monthly fixed charges and the volumetric rates each by 17.7 percent to achieve its revenue requirement. For effluent sales, the Company proposes a 33.3 percent increase.

Staff also recommends continued use of the existing rate structure (with the exception of effluent sales). Under Staff's recommended rates the monthly fixed charges and volumetric charges increase between 13.35 and 13.61 percent. Staff recommends a 32.67 percent increase for effluent sales. Staff's recommended rate design would generate Staff's recommended wastewater revenue requirement of \$1,002,515 composed of \$987,297 from sewer services and \$15,218 from other revenues. The typical residential sewer bill would increase by \$6.30, or 13.56 percent, from \$46.50 to \$52.80.

The Company proposes to implement a tariff representing the actual cost plus a fixed charge for sewer line disconnection of delinquent accounts. Staff concludes that the Company has not shown that physical disconnection is an efficient and effective method to improve delinquent account collection, and that if sewer disconnections are performed, they may have undesirable health, safety and environmental consequences. As an alternative, Staff recommends that the Commission direct the Company to engage in discussions with the service area's water provider (Arizona Water Company) to negotiate a water termination services agreement similar to those Arizona American Water Company has with the City of Surprise and the City of Bisbee

that provide for Arizona American Water Company to terminate water services for delinquent sewer customers.

The Company is also requesting adoption of a low income tariff. The Company asserts that its proposed low income tariff is similar to the one adopted by the Commission in the Chaparral City Water rate case. Staff notes that the proposed program contains several significant departures from the Chaparral City program, and it is not adequately detailed. Staff supports adoption of a low income tariff, and it suggests enhancements to refine the Company's proposal.

**I. INTRODUCTION**

**Q. Please state your name, occupation, and business address.**

A. My name is Gary McMurry. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

**Q. Please describe your educational background and professional experience.**

A. I received a Bachelor of Science degree in Business Administration with a major in Accounting from the University of Arizona. I have since been awarded two professional designations, as a Certified Fraud Examiner and as a Certified Internal Auditor; after successfully meeting the prescribed requirements established by each of the sponsoring professional organizations.

My prior work experience includes approximately 20 years of auditing (both internal and external), five additional years as a bank examiner, and two years of Investigations work. Prior to joining the Commission, I was employed by the Office of Audit and Analysis for the Department of Transportation primarily as a construction auditor.

In 2007, I began employment at the Commission as a Public Utilities Analyst IV in the Finance and Regulatory Analysis Section. Since coming to the Commission, I have participated in a number of rate cases and other regulatory proceedings involving water and gas utilities. I have also attended various seminars and classes on general regulatory and business issues, including the National Association of Regulatory Utility Commissioners ("NARUC") Utility Rate School and the Institute of Public Utilities Annual Regulatory Studies Program ("Camp NARUC").

1 **Q. Briefly describe your responsibilities as a Public Utilities Analyst.**

2 A. I am responsible for the examination and verification of financial and statistical  
3 information included in assigned utility rate applications and other financial regulatory  
4 matters. I develop revenue requirements, design rates, and prepare written reports,  
5 testimony and schedules to present Staff's recommendations to the Commission.  
6

7 **Q. What is the purpose of your testimony in this case?**

8 A. The purpose of my testimony is to present Staff's analysis and recommendations  
9 regarding the Coronado Utilities Inc.'s ("Coronado" or "Company") application for a  
10 permanent rate increase. I am presenting recommendations in the areas of rate base,  
11 operating income, revenue requirement and rate design. Staff witness Katrin Stukov is  
12 presenting the engineering analysis and recommendations.  
13

14 **Q. What is the basis of Staff's recommendations?**

15 A. I have performed a regulatory audit of the Company's records to determine whether  
16 sufficient, relevant and reliable evidence exists to support the proposals in Coronado's rate  
17 application. My regulatory audit consisted of the following: (1) examining and testing  
18 Coronado's accounting ledgers, reports and supporting documents; (2) checking the  
19 accumulation of amounts in the records; (3) tracing recorded amounts to source  
20 documents; and (4) verifying that the Company applied accounting principles were in  
21 accordance with the NARUC Uniform System of Accounts ("USOA").  
22

23 **Q. How is your testimony organized?**

24 A. My testimony is presented in eleven sections. Section I is this introduction. Section II  
25 provides a background of the Company. Section III is a summary of consumer service  
26 issues. Section IV is a summary of proposed revenues. Section V is a summary of Staff's



1 rate base and operating income adjustments. Section VI presents Staff's rate base  
2 recommendations. Section VII presents Staff's operating income recommendations.  
3 Section VIII discusses the Company's proposed tariff for delinquent sewer accounts.  
4 Section IX discusses the Company's proposed low income tariff. Section X discusses rate  
5 of return. Section XI discusses rate design.

6  
7 **Q. Have you prepared any schedules to accompany your testimony?**

8 A. Yes. I prepared schedules GTM-1 to GTM-14.  
9

10 **II. BACKGROUND**

11 **Q. Would you please review the pertinent background information associated with the**  
12 **Company's application for a permanent rate increase?**

13 A. Coronado is a class B public service corporation that provides wastewater service to  
14 approximately 1,300 customers in the vicinity of the unincorporated Town of San Manuel,  
15 County of Pinal, Arizona. On June 3, 2009, Coronado filed an application for approval of  
16 permanent rates and charges for water service, and on July 16, 2009, Staff filed a letter  
17 declaring the application sufficient. Coronado's application asserts that an increase in  
18 revenues is required to recover operating expenses and to provide debt service coverage  
19 and a 7.36 percent return on fair value rate base ("FVRB").  
20

21 **Q. What test year did Coronado use in its filing?**

22 A. Coronado's rate filing is based on the twelve-month period that ended December 31, 2008.

1 **Q. When were Coronado's present rates established?**

2 A. The Commission Decision No. 68608, dated March 23, 2006, granted the Company a new  
3 Certificate of Convenience and Necessity ("CC&N") and established its present  
4 permanent rates.

5  
6 **Q. Does Coronado have any other cases currently pending before the Commission?**

7 A. No.  
8

9 **III. CONSUMER SERVICE**

10 **Q. Please provide a brief summary of customer complaints received by the Commission**  
11 **regarding Coronado Utilities.**

12 A. Staff reviewed the Commission's records and found 11 complaints and 8 opinions  
13 opposed to the rate increase for the period January 1, 2006, through November 2, 2009.  
14 The Company is in good standing with Corporations Division. The Company is current  
15 on all property and sales taxes.  
16

17 **IV. SUMMARY OF PROPOSED REVENUES**

18 **Q. What revenue requirement is Coronado proposing?**

19 A. The Company's application proposes total operating revenue of \$1,040,028, an increase of  
20 \$156,498, or 17.71 percent, over its test year revenue of \$883,530. The Company's  
21 proposed revenue, as filed, would provide an operating income of \$260,297 for a 7.36  
22 percent rate of return on the proposed \$3,536,648 fair value rate base which is the same as  
23 the proposed original cost rate base ("OCRB").

1 **Q. What is Staff's revenue requirement recommendation?**

2 A. Staff recommends revenues of \$1,002,515, a \$118,985 (13.47 percent) increase over test  
3 year revenues of \$883,530, to provide an operating income of \$259,892 for a 7.36 percent  
4 rate of return on \$3,531,141 FVRB.

5  
6 **V. SUMMARY OF STAFF'S RATE BASE AND OPERATING INCOME**  
7 **ADJUSTMENTS**

8 **Q. Please summarize Staff's rate base and operating income adjustments.**

9 A. Rate Base:

10 Deferred Income Tax Debits – This \$2,639 increase correlates with Staff adjustment to  
11 Accumulated Depreciation and reflects an increase in book/tax timing differences due to  
12 the Company's improper calculation of depreciation expense in prior periods.

13  
14 Accumulated Depreciation adjustment – This \$8,146 increase corrects for the Company's  
15 application of unauthorized depreciation rates for certain accounts.

16  
17 B. Operating Income:

18 Bad Debt Write-off – This \$27,881 downward adjustment normalizes bad debt expense.

19  
20 Depreciation expense – This adjustment decreases depreciation expense by \$8,343 to  
21 reflect application of Staff's recommended depreciation rates to Staff recommended plant  
22 amounts.

23  
24 Property Taxes – This adjustment decreases test year property taxes by \$3,219 to reflect  
25 application of the modified version of the Arizona Department of Revenue's property tax  
26 methodology which the Commission has consistently adopted.

1        Test Year Income Taxes – This adjustment increases test year income tax expense by  
2        \$8,558 to reflect application of statutory state and federal income tax rates to Staff  
3        adjusted taxable income.

4  
5        **VI.     RATE BASE**

6        **Fair Value Rate Base**

7        **Q.     Does Coronado's application include schedules with elements of a Reconstruction**  
8        **Cost New Rate Base?**

9        A.     No. The Company's application does not request recognition of a Reconstruction Cost  
10       New Rate Base. Accordingly, Staff has treated the Company's OCRB as its FVRB.

11  
12       **Rate Base Summary**

13       **Q.     Please summarize Staff's rate base recommendation.**

14       A.     Staff recommends a \$3,531,141 OCRB, a \$5,507 reduction from the Company's proposed  
15       \$3,536,648 rate base. Staff's recommendation results from the rate base adjustments  
16       described below.

17  
18       **Rate Base Adjustment No. 1 – Accumulated Deferred Income Taxes ("ADIT")**

19       **Q.     What did the Company propose with respect to accumulated deferred income taxes**  
20       **in the test year?**

21       A.     Schedule B-2, page 1, line 22 of the Company's application shows that the Company  
22       deducted a negative \$37,425 for ADIT to calculate its proposed rate base. In other words,  
23       the Company is requesting recognition of a deferred income tax debit,<sup>1</sup> an addition to rate  
24       base, as shown in Schedule GTM-4.

---

<sup>1</sup> Schedule B-2, page 1, line 9 erroneously, and inconsistently with line 14, shows the \$37,425 ADIT balance as a liability instead of an asset.

1 **Q. How did the Company calculate its ADIT balance?**

2 A. The Company presents its ADIT calculation in Schedule B-2, page 6 of the application.  
3 The calculation applies the current tax rate to the difference between the tax and book  
4 values of plant  $[(\$3,551,621 \text{ tax value} - \$3,436,094 \text{ book value}) \times 32.4 \text{ percent tax rate}] =$   
5  $\$37,425$ .

6  
7 **Q. Is Staff taking exception to the Company's general methodology in this proceeding?**

8 A. No. Staff accepts the Company's ADIT methodology for this proceeding. However, Staff  
9 calculated a different ADIT balance due to use of a different book plant value that results  
10 from Staff's adjustment to Accumulated Depreciation discussed below.

11  
12 **Q. How does Staff's adjustment to Accumulated Depreciation affect ADIT?**

13 A. Staff's \$8,146 increase to accumulated depreciation decreased the net plant value by that  
14 amount, and it also increases the difference between the tax and book values by that  
15 amount. The impact to ADIT balance is the product of the current tax rate and the \$8,146  
16 difference, or \$2,639  $(\$8,146 \times 32.4 \text{ percent})$ .

17  
18 **Q. What is Staff recommending?**

19 A. Staff recommends a \$2,639 increase in the ADIT debit to \$40,064, as shown in GTM-5.  
20

21 **Rate Base Adjustment No. 2 – Accumulated Depreciation**

22 **Q. What did the Company propose with respect to the depreciation expense for**  
23 **pumping equipment and outfall sewer lines?**

24 A. Coronado proposed depreciation rates of 12.5 percent for pumping equipment and 3.33  
25 percent for outfall sewer lines.

1 **Q. What did the Commission approve with respect to these asset classes?**

2 A. In Decision No. 68608, dated March 23, 2006, the Commission approved the Staff Report,  
3 dated May 27, 2005, which recommended depreciation rates for pumping equipment of  
4 10.0 percent and for outfall sewer lines of 4.0 percent.

5  
6 **Q. What is Staff recommending?**

7 A. Staff recommends increasing accumulated depreciation by \$8,146 to reflect the  
8 depreciation rates adopted by the Commission, as shown in GTM-6.

9  
10 **VII. OPERATING INCOME**

11 **REVENUES**

12 **Q. Please summarize the results of Staff's examination of test year operating income.**

13 A. Staff determined a test year operating income of \$185,381, \$30,884 higher than the  
14 Company's adjusted test year operating income of \$154,497. Staff's recommendation  
15 results from the operating income adjustments described below.

16  
17 **Operating Income Adjustment No. 1 – Normalize Bad Debt Expenses**

18 **Q. What does the Company propose for bad debt expense?**

19 A. The Company proposes an actual recorded expense of \$46,313 in the test year.

20  
21 **Q. Is the test year expense representative of average bad debt expense?**

22 A. No. The Company's reported bad debt expenses for the fiscal years 2006, 2007, and 2008  
23 totaled \$3,483, \$5,500, and \$46,312, respectively, which indicates that these expenses  
24 vary widely from year to year.

1 **Q. Do recorded bad debt expenses directly reflect the number of collection**  
2 **delinquencies or uncollectible amounts?**

3 A. No. The Company controls when it elects to expense delinquent accounts.  
4

5 **Q. What reason does the Company offer to explain the higher bad debt expense in the**  
6 **test year compared to prior years?**

7 A. In response to GTM-2.17, the Company indicated that the primary reason for the higher  
8 bad debt expense in the test year relates to the \$9.50 increase in the phase 3 rates which  
9 became effective July 1, 2008.  
10

11 **Q. Does the Company's stated reason comport with its history?**

12 A. No. Staff notes that the Company experienced no similar increase in bad debt expense  
13 when rates increased \$10.00 from \$27.00 to \$37.00 as a result of the adoption of the phase  
14 2 rate increase effective June 30, 2007.  
15

16 **Q. What is Staff recommending?**

17 A. Staff recommends normalizing bad debt expense as the average of the past three years.  
18 Staff recommends removing \$27,881 from bad debt expense to reflect a normalized level  
19 of \$18,432, as shown in Schedule GTM-9.  
20

21 **Operating Income Adjustment No. 2 – Depreciation Expense**

22 **Q. What is the Company proposing for Depreciation expense?**

23 A. The Company proposes its recorded test year depreciation expense of \$186,095.

1 **Q. Did the Company record depreciation expense in accordance with the authorized**  
2 **depreciation rates?**

3 A. No. As noted above in the discussion of Staff's adjustment to accumulated depreciation,  
4 the Company recorded the incorrect depreciation rates for pumping equipment and outfall  
5 sewer lines.

6  
7 **Q. Did Staff recalculate depreciation expense?**

8 A. As shown in Schedule GTM-10, Staff recalculated depreciation expense by applying  
9 Staff's recommended depreciation rates to Staff's recommended plant by account. Staff  
10 calculated depreciation expense of \$177,752, a reduction of \$8,343 from the \$86,095  
11 proposed by the Company.

12  
13 **Q. What is Staff recommending?**

14 A. Staff recommends \$177,752 for Depreciation expense, an \$8,343 reduction from the  
15 Company's proposed amount, as shown in Schedule GTM-10.

16  
17 **Operating Income Adjustment No. 3 – Property Tax Expense**

18 **Q. What is the Company proposing for test year property tax expense?**

19 A. Coronado proposes \$57,733 for test year property taxes. The proposed amount is \$13,194  
20 greater than the \$44,538 recorded in the test year. The Company calculated its proposed  
21 amount using a modified version of the Arizona Department of Revenue's ("ADOR")  
22 property tax method.



1     **Q.     What method has the Commission typically adopted to determine property tax**  
2     **expense for ratemaking purposes of Class B wastewater utilities?**

3     A.     The Commission's practice in recent years has been to use a modified Arizona  
4     Department of Revenue methodology for water and wastewater utilities.

5  
6     **Q.     Using the modified ADOR property tax method, what is the primary factor for**  
7     **determining the amount of property tax calculated?**

8     A.     The results from the modified ADOR methodology are primarily dependent upon revenue  
9     inputs for three years. In the same manner as each operating income has a specific income  
10    tax expense, there is a specific property tax expense for each three-year set of revenue  
11    inputs. Therefore, the property tax expense calculated for the test year is different than the  
12    property tax calculated for the authorized revenue. Only when the revenue input for each  
13    of the three years is equal to the test year revenue will the resulting calculation reflect  
14    property tax expense that correlates with the test year revenue. Since under the modified  
15    ADOR method property tax expense is revenue dependent in the same manner as is  
16    income tax expense, property tax expense must be recalculated to reflect the authorized  
17    revenue. Using inputs of one year of authorized revenue and two years of test year  
18    revenue in the modified ADOR method provides the average expected property tax over a  
19    subsequent three-year period. Use of one year of authorized revenue and two years of test  
20    year revenue is consistent with the tax assessment lags used by ADOR.

21  
22    **Q.     What revenues did the Company use to calculate test year property tax expense?**

23    A.     Schedule C-2, page 3, of the Company's application shows that it used one year of  
24    proposed revenue and two years of test year revenues to calculate test year property tax  
25    expense.

1     **Q.     Does the Company's property tax calculation reflect an appropriate amount for test**  
2     **year property tax expense?**

3     A.     No. As discussed above, only when the revenue input for each of the three years is equal  
4     to the test year revenue will the resulting calculation using the modified ADOR method  
5     reflect property taxes that correlate with test year revenue. Since the Company included  
6     one year of proposed revenue in its calculation, its proposed test year property tax expense  
7     reflects the on-going property tax expense, as opposed to test year expense, and will only  
8     reflect the on-going expense if the Company's proposed revenue is adopted.

9  
10    **Q.     Has Staff developed a solution to address the dependent relationship between**  
11    **Property Tax expense and revenues?**

12    A.     Yes. Staff has included a factor for property taxes in the gross revenue conversion factor  
13    ("GRCF") (See Schedule GTM-2) that automatically adjusts the revenue requirement for  
14    changes in revenue in the same way that income taxes are adjusted for changes in  
15    operating income. This flexible method will accurately reflect property tax expense at any  
16    authorized revenue level. This refinement allows for accurate calculation of property tax  
17    expense at the test year revenue level, and for recovery of any additional property tax  
18    expense incurred due to any increase in authorized revenue. It also removes any necessity  
19    to present on-going property tax expense as test year property tax expense. In using the  
20    GRCF to calculate the correct revenue requirement, the test year operating income must  
21    be determined with property tax expense derived from the modified ADOR method using  
22    test year revenue as the input for all three years.

1 **Q. What is Staff recommending for test year property tax expense?**

2 A. Staff recommends \$54,514 for test year property tax expense, a \$3,219 reduction from the  
3 Company's proposed amount as shown in Schedule GTM-11.<sup>2</sup> Staff further recommends  
4 adoption of its GRCF that includes a factor for property tax expense, as shown in  
5 Schedule GTM-2.

6  
7 **Operating Income Adjustment No. 4 – Income Tax Expense**

8 **Q. What is the Company proposing for test year income tax expense?**

9 A. Coronado is proposing negative \$711 for test year income tax expense. The Company's  
10 test year income tax expense reflects application of the statutory State and Federal income  
11 tax rates to its adjusted test year loss.

12  
13 **Q. How did Staff calculate Test Year Income Tax Expense?**

14 A. Staff calculated test year income tax expense of \$7,847 by applying the statutory State and  
15 Federal income tax rates to Staff's adjusted test year taxable income, as shown in  
16 Schedule GTM-2.

17  
18 **Q. Since Staff and the Company used the same tax rates and methods to calculate test**  
19 **year income tax expense, what accounts for the difference between the Staff and the**  
20 **Company test year income tax expenses?**

21 A. Staff and the Company used different test year operating expenses and synchronized  
22 interest to calculate taxable income.

---

<sup>2</sup> Schedule GTM-11 also shows calculations for Property Tax Expense for Staff's recommended revenue.

1 **Q. What is Staff recommending?**

2 A. Staff recommends test year income tax expense of \$7,847, as shown in Schedule GTM-2  
3 and GTM-12.  
4

5 **Q. Does Staff have any additional comments regarding income taxes?**

6 A. Yes. On Schedule C-3, the Company shows its calculation of a 1.4792 gross revenue  
7 conversion factor. Schedule GTM-2 shows the calculation of Staff's 1.5969 GRCF. This  
8 difference in GRCF is due to Staff's greater taxable income that falls into the highest (39  
9 percent) Federal tax bracket and to a lesser extent Staff's inclusion of a factor for property  
10 tax expense.  
11

12 Staff Schedule GTM-2 provides a reconciliation of Staff's test year and recommended  
13 revenues. The reconciliation shows the incremental operating income, property tax  
14 expense and income tax expense components of Staff recommended increase in revenue.  
15 The reconciliation verifies that Staff's 1.5969 GRCF results in the recommended  
16 operating income.  
17

18 **VIII. DELINQUENT PAYMENT DISCONNECTION TARIFF**

19 **Q. What is the Company proposing with respect to sewer line disconnection?**

20 A. Coronado requests that the Commission authorize it to charge customers that are  
21 delinquent paying sewer bills a disconnection tariff for an amount equal to the actual costs  
22 incurred to disconnect the sewer line plus \$35.00.  
23

24 **Q. Has the Company provided any support to demonstrate that physical disconnection  
25 of sewer lines is an efficient and effective method to collect delinquent accounts?**

26 A. No.

1     **Q.     Has the Company exhausted reasonable options other than physical disconnection**  
2     **that may be less costly or more effective methods to collect delinquent accounts?**

3     A.     Although the Company has acquired the services of an outside collection agency, other  
4     potentially effective methods of collecting delinquent accounts may be available as  
5     discussed below.

6  
7     **Q.     Does Staff have concerns other than cost and effectiveness regarding physical**  
8     **disconnections?**

9     A.     Yes. Disconnection of a sewer line presents potential health, safety and environment  
10    concerns.

11  
12    **Q.     What is one alternative to physical disconnection?**

13    A.     One alternative is to enter into a water service termination agreement with the local water  
14    service provider.

15  
16    **Q.     Please describe the key elements of a Water Service Termination Agreement?**

17    A.     A water termination agreement provides for the water provider to terminate water services  
18    to any customer who becomes delinquent on waste water payments at the same address.  
19    A water service termination agreement would have provisions to hold harmless the water  
20    provider from any damages resulting from the water cutoff and provide for reimbursement  
21    to the water provider for lost water revenue and fees incurred as a result of the water  
22    termination.

1     **Q.     Have water service termination agreements been used successfully by other utilities**  
2     **in Arizona?**

3     A.     Yes. The City of Surprise (ACC Decision No. 68917) and the City of Bisbee (ACC  
4     Decision No. 66998) both have executed water termination agreements with Arizona-  
5     American Water Company.

6  
7     **Q.     Would a water service agreement preclude Coronado from the ultimate**  
8     **disconnection of the sewer line on certain delinquent accounts?**

9     A.     No. Staff realizes that ultimately a sewer disconnection may be appropriate in some  
10    instances; however, Staff believes that such instances would be rare. Staff concludes that  
11    an alternate method to facilitate payments might prove to be more effective and less costly  
12    to all parties involved, and it should be pursued prior to establishing a sewer disconnection  
13    fee.

14  
15    **Q.     What does Staff recommend?**

16    A.     Staff recommends that the Commission order Coronado to work with the local area water  
17    provider, in this case Arizona Water Company, to develop a water termination agreement  
18    instead of authorizing a sewer disconnection fee. Staff would note that Commission rule  
19    R14-2-410 (A) (3) prohibits water utilities from discontinuing service to customers for  
20    failure to pay bills for different classes of utility service. Consequently, the water  
21    provider, Arizona Water Company, would have to file an application for the Commission  
22    to permit a waiver or variance from the rule in order to implement a water services  
23    termination agreement.

**IX. LOW INCOME TARIFF**

**Q. Is the Company proposing a low income tariff?**

A. Yes. Coronado proposes to establish a low income tariff to assist economically disadvantaged customers pay their utility bills.

**Q. What did the Company use as a baseline for developing its low income tariff?**

A. Mr. Bourassa's direct testimony (at page 13) states that the proposed low income tariff is modeled after those he recently proposed in rate cases for Chaparral City Water Company (Docket No. W-02113A-07-0551) and Litchfield Park Service Company (Docket Nos. SW-01428A-09-0103 and W-01427A-09-0104) and Rio Rico Utilities, Inc. (Docket No. WS-02676A-09-0257).

**Q. What are the key provisions of the Company's proposed low income tariff?**

A. The low income tariff as described in Mr. Bourassa's direct testimony includes the following primary components:

1. Requirement for customers to submit an "Application and Eligibility Declaration" that provides proof of meeting income eligibility requirements and is subject to verification.
2. Requires customers to renew eligibility requirement every two years.
3. Applicable only to residential customers that meet all program qualifications.
4. An income eligibility standard of no more than 100 percent of federal poverty level (updated annually).
5. Provides a 25 percent discount on the entire wastewater service fee.
6. Recovery of an Administrative Fee equal to 10 percent of an unspecified base.
7. Maintenance of a balancing account.

- 1           8. Recovery of a carrying cost at the authorized rate of return applied in an unspecified
- 2           manner.
- 3           9. Recovery of program costs from only residential non-participants.
- 4           10. Begin the surcharge as soon as possible six months after implementation.
- 5           11. Recalculate surcharge every 6 months.
- 6           12. Submit annually a report showing: number of participants for each six-month period
- 7           during the year; amount of discounts given to participants; administration fees and
- 8           carrying costs charged; amount of surcharge collections from non-participating
- 9           residential customers; and a computation of the surcharge for the next six-month
- 10          period.

11  
12   **Q.    What is the recent experience with low income tariffs for water and wastewater**  
13   **utilities in Arizona?**

14   A.    Use of low income tariffs is for the most part a recent development. The Commission has  
15   authorized low income tariffs for Arizona-American Water Company (W-01303A-07-  
16   0209) and Chaparral City Water Company (Docket No. W-02113A-07-0551). Low  
17   income tariffs have been proposed by utilities and supported by Staff in pending rate cases  
18   by Litchfield Park Service Company (Docket Nos. SW-01428A-09-0103 and W-01427A-  
19   09-0104) and Rio Rico Utilities, Inc. (Docket No. WS-02676A-09-0257).

20  
21   **Q.    Is the Company's proposed low income tariff essentially the same as that adopted for**  
22   **Chaparral City Water Company and proposed by Litchfield Park Service**  
23   **Company?**

24   A.    No. The low income program proposed for Coronado is different from the one approved  
25   by the Commission for Chaparral City Water Company or proposed by Litchfield Park  
26   Service Company. Mr. Bourassa has also proposed a low income tariff on behalf of Rio



1 Rico Utilities, Inc. The low income tariff proposed for Rio Rico Utilities, Inc. is different  
2 from those for Coronado, Chaparral City Water Company and Litchfield Park Service  
3 Company.

4  
5 **Q. Given that Arizona has limited experience with low income tariffs, is it unexpected to**  
6 **see differences in the proposed low income programs as knowledge and experience is**  
7 **gained?**

8 A. No. Staff would expect an evolution of the low income programs as Arizona gains  
9 experience with them. However, the Company's proposed changes do not appear to be  
10 based on experience or any other specific information. According to the Company's  
11 response to Staff data request GTM-6.3, it did not prepare or obtain any demographic  
12 studies to determine the incomes in the San Manuel area. The Company does not have  
13 this basic information for reasonably estimating the number of eligible customers. The  
14 limited experience with low income programs suggests that more controls and limitations  
15 should be applied.

16  
17 **Q. Does Staff support adoption of a low income tariff for Coronado?**

18 A. Yes.

19  
20 **Q. Does Staff have any general and specific concerns with Coronado's proposed low**  
21 **income tariff?**

22 A. Yes, Staff has comments for the following points.

23 Tariff - Staff notes that the tariff in the application is incomplete and fails to include even  
24 the still sketchy details presented in Mr. Bourassa's testimony.

25 Discount Percent - The Company has provided no support for its proposal for a 25 percent  
26 discount off the total wastewater service fee. This proposal is a significant increase over

1 the 15 percent discount adopted for Chaparral City Water Company and the other pending  
2 cases discussed above. Staff concludes that a 15 percent discount should be adopted  
3 unless the Company can demonstrate that its proposed 25 percent discount is more  
4 appropriate in consideration of the overall interests of the Company and all customers.

5 Income Eligibility – The Company has not explained or supported its proposal to use 100  
6 percent of the federal poverty level as the eligibility cutoff. This proposal represents a  
7 significant decrease from the 150 percent level adopted for Chaparral City Water  
8 Company. Staff concludes that an eligibility standard equal to 150 percent of the federal  
9 poverty level should be adopted unless the Company can demonstrate that its proposed  
10 100 percent level is more appropriate in consideration of the overall interests of the  
11 Company and all customers.

12 Recertification – While Staff agrees with the Company proposal for participants to reapply  
13 at least once every two years, the Company proposes passive, not proactive, reporting of  
14 continuing eligibility. Staff concludes that participants should be required to submit an  
15 affidavit yearly attesting to their continuing eligibility.

16 Participation Cap – The Company has not proposed any limitation on the number of  
17 customers that may participate in the program. Allowing unfettered participation could be  
18 burdensome to ineligible customers to whom the costs of the low income discounts would  
19 be transferred. This concern is exacerbated by the Company's inability to reasonably  
20 estimate participation. In order to limit the low income surcharge to less than 10 percent  
21 of the monthly bill for non-participants, Staff concludes that participation should be  
22 limited to 400 customers (approximately 30 percent).

23 Administrative Fee – The Company proposes an administrative fee pertaining to its low  
24 income program. Details of this proposed fee are unclear. Mr. Bourassa's direct  
25 testimony (at page 14) states, "The program cost (the discounts given to participants plus a  
26 10 percent fee for administration and carrying costs) would be recovered from non-

1 participants via a commodity charge.” Mr. Bourassa’s direct testimony (at page 15)  
2 explains that the carrying charge is the authorized rate of return, and he provides an  
3 illustration (at pages 15-16). However, the illustration does not show how the carrying  
4 cost would be applied, whether the carrying cost is included or in addition to the 10  
5 percent administrative fee or even to what base the 10 percent is applicable. In response  
6 to Staff data request GTM-6.6, the Company could not provide support for these cost  
7 estimates; it only offers its belief that the fee is a fair amount. Staff concludes that the  
8 Company’s vague proposal represents, inappropriately, establishment of the low income  
9 program as a profit center. Staff further concludes that the low income program should  
10 allow the Company to seek recovery only of direct costs (i.e., costs directly associated  
11 with the program -- those that would not be incurred in the absence of the program), and  
12 that the Company should account for these direct costs separately from other costs. Staff  
13 further concludes that the authorized rate of return is a reasonable carrying rate. The  
14 carrying rate should be applied monthly to the average of the beginning and ending  
15 balance of the cumulative unrecovered program costs and included in the beginning  
16 balance for the following month.

17 Surcharge Initiation, Recalculation Frequency and Approval – The Company proposes to  
18 initiate a surcharge to recover the program costs (discounts, administrative fee and  
19 carrying charges) as soon as practicable after the first six months of implementation and to  
20 reset the surcharge every six months thereafter. The Company’s proposal has a provision  
21 for annual Commission oversight of the surcharge amount, but it has no oversight for the  
22 mid-year resetting of the surcharge. This proposal represents a significant deviation from  
23 the twelve month initiation and recalculation periods adopted for Chaparral City Water  
24 Company. Mr. Bourassa’s direct testimony (at page 16) offers an explanation for this  
25 difference asserting that Coronado “cannot afford to carry a significant number of  
26 customers that may qualify for the low income tariff for a whole year.” Staff concludes

1 that its recommended revenue combined with Staff recommended limits on participation  
2 and a 15 percent discount will provide Coronado with sufficient cash flow to carry the  
3 program costs for twelve months, and that the surcharge should be implemented twelve  
4 months after authorization of the program and subsequent to Commission approval of the  
5 specific surcharge amount, and recalculated each twelve months thereafter. Staff further  
6 concludes that resetting the surcharge in mid-year without Commission oversight is  
7 inappropriate and providing oversight for resetting the surcharge every six months is not  
8 efficient use of regulatory resources.

9 Surcharge Recovery Customer Base – The Company proposes to recover the low income  
10 program costs only from residential customers since only residential customers qualify for  
11 the program. Staff agrees that the surcharge should apply only to the residential customer  
12 class.

13 Surcharge Calculation - The Company has not provided a specific method for periodically  
14 calculating the low income surcharge. Staff concludes that the following is an appropriate  
15 surcharge calculation method. The surcharge shall equal a dollar-and-cents amount  
16 resulting from dividing the ending balance of the low income balancing account properly  
17 calculated by the number of bills properly issued to non-participating residential  
18 customers during the past 12-month tracking period. The ending balance in the balancing  
19 account should equal the beginning balance plus discounts allowed on bills in the twelve  
20 month tracking period plus direct program costs incurred in the twelve month tracking  
21 period plus carrying charges less surcharge fees billed in the twelve month tracking  
22 period.

23 Reporting Requirement - Mr. Bourassa's direct testimony (at page 16) states, "Coronado  
24 expects that it will need to submit an annual report showing the number of participants for  
25 each six-month period during the year, the discounts given to participants, administration  
26 fee and carrying costs, and the collections made from non-participants through the

1 surcharge. The Company would also report the balance of the low income balancing  
2 accounts and show the computation of the next six-month commodity charge and submit  
3 updated gross annual income guidelines as updated by the federal government.”  
4 Removing the references to a six-month period to reflect annual surcharge recalculation,  
5 Staff agrees that the Company should submit an annual report as one step of the annual  
6 process for the Commission to approve and reset the surcharge amount.  
7

8 **Q. What is Staff’s recommendation with respect to the low income tariff?**

9 A. Staff recommends approval of the low income tariff consistent with its comments and  
10 conclusions discussed above.  
11

12 **X. RATE OF RETURN**

13 **Q. Please provide an overview of Staff’s rate of return.**

14 A. Staff recommends adoption of the Company’s proposed 7.36 percent overall rate of return,  
15 as shown on Schedule A-1. Staff is not adopting the Company’s cost of capital  
16 methodology or the underlying components, e.g., the associated return on equity. Staff is  
17 adopting the Company’s overall rate of return to effectively utilize its resources, and to  
18 recognize that the proposed rate of return is comparable to that adopted by the  
19 Commission for other utilities in recent decisions.  
20

21 **XI. RATE DESIGN**

22 **Present Rate Design**

23 **Q. Please provide an overview of the Company’s present rates.**

24 A. The following is a general description of the present rate structure. Details of the rate  
25 designs are presented in Schedule GTM-13. The present rate structure includes  
26 residential, commercial, mobile home park (summer and winter), school and effluent

1 customer classes. The present rate structure consists of a monthly fixed charge with no  
2 commodity charges for residential customers or in the summer season for mobile home  
3 park customers. The present rate structure for the commercial, mobile home park (winter  
4 season), school and effluent customer classes consists of a monthly fixed charge plus a  
5 commodity rate charge. The commodity rate is uniform regardless of volume but varies  
6 by customer class. The minimum monthly charge for the residential class is \$46.50.

7  
8 **Company's Proposed Waste Water Rate Design**

9 **Q. Please provide an overview of the Company's proposed rate structure.**

10 A. The Company's proposes to continue the existing rate structure (with the exception of  
11 effluent sales) and increase the monthly fixed charges and the volumetric rates each by  
12 17.7 percent to achieve its proposed revenue requirement. The Company proposes a 33.3  
13 percent increase for effluent sales.

14  
15 **Q. Did the Company propose any changes to its wastewater system service charges?**

16 A. Yes. The Company has proposed changes to service charges. The Company's proposed  
17 service charge changes are shown in the Company's Revised Schedule H-3 and GTM-13.  
18 The Company's proposed rates for service charges, with the exception of the service line  
19 disconnection fee, are in line with the service charges of other wastewater utilities.

20  
21 **Q. Has the Company submitted proposed tariff language specifying the terms and  
22 conditions as well as its rates and charges?**

23 A. No. The Company's application proposes only rates and charges. No specific tariff  
24 language is proposed.

**Staff's Recommended Wastewater Rate Design**

**Q. Please provide a description of Staff's recommended rate structure for the wastewater system.**

A. Staff agrees with the Company's proposal to continue the existing rate structure (with the exception of effluent sales). Under Staff's recommended rates, the monthly fixed charges and volumetric charges increase between 13.35 and 13.61 percent. Staff recommends a 32.67 percent increase for effluent sales. Staff recommends the following monthly fixed charges by customer class: residential, \$52.80; commercial, \$8.50; mobile home park (\$8.50 for winter season and \$36.20 for summer season); and school, \$8.50. Staff recommends the following uniform commodity rates per 1,000 gallons of water use by customer class: residential, \$0.00; commercial, \$11.15; mobile home park, (\$6.50 for winter season and \$0.00 for summer season); school, \$3.55; and effluent, \$0.20. The volumetric rate is applicable for all gallons used.

**Q. Did Staff prepare schedules showing the present, Company proposed, and Staff recommended monthly minimums and commodity rates for each rate class?**

A. Yes. Staff's Direct Testimony Schedule GTM-13 shows the present monthly fixed charges and commodity rates, the Company's proposed monthly fixed charges and commodity rates and Staff's recommended monthly fixed charges and commodity rates.

**Q. Did Staff prepare a schedule showing the average and median monthly bill under present rates, the Company's proposed rates, and Staff's recommended rates?**

A. Yes. Staff's Direct Testimony Schedule GTM-14 presents the typical bill analysis for a residential sewer customer using present rates, the Company's proposed rates and Staff's recommended rates.

1     **Q.     What is the impact to the median customer bill with Staff's rate design?**

2     A.     The typical bill analysis for a residential customer would increase by \$6.30, or 13.56  
3             percent, from \$46.50 to \$52.80.

4  
5     **Q.     What waste water system service charges does Staff recommend?**

6     A.     Staff's recommendations for service charges are shown in Schedule GTM-13. These  
7             service charges will generate \$15,218 based on the Company's estimates for the various  
8             services provided in the test year as previously discussed.

9  
10    **Q.     Will Staff's recommended rate design generate Staff's recommended revenue**  
11       **requirement?**

12    A.     Staff's recommended rate design will generate Staff's recommended wastewater revenue  
13             requirement of \$1,002,515 composed of \$987,297 from sewer services and \$15,218 from  
14             other revenues.

15  
16    **Q.     Does this conclude your direct testimony?**

17    A.     Yes, it does.



**CORONADO UTILITIES, INC.**

Docket No. SW-04305A-09-0291

Test Year ended December 31, 2008

DIRECT TESTIMONY OF Gary T. McMurry

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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 3,536,648	\$ 3,536,648	\$ 3,531,141	\$ 3,531,141
2	Adjusted Operating Income (Loss)	\$ 154,497	\$ 154,497	\$ 185,381	\$ 185,381
3	Current Rate of Return (L2 / L1)	4.37%	4.37%	5.25%	5.25%
4	Required Rate of Return	7.36%	7.36%	7.36%	7.36%
5	Required Operating Income (L4* L1)	\$ 260,297	\$ 260,297	\$ 259,892	\$ 259,892
6	Operating Income Deficiency (L5 - L2)	\$ 105,800	\$ 105,800	\$ 74,511	\$ 74,511
7	Gross Revenue Conversion Factor	1.4792	1.4792	1.5969	1.5969
8	Required Revenue Increase (L7 * L6)	\$ 156,498	\$ 156,498	<b>\$ 118,985</b>	<b>\$ 118,985</b>
9	Adjusted Test Year Revenue	\$ 883,530	\$ 883,530	\$ 883,530	\$ 883,530
10	Proposed Annual Revenue (L8 + L9)	\$ 1,040,028	\$ 1,040,028	\$ 1,002,515	\$ 1,002,515
11	Required Increase in Revenue (%)	17.71%	17.71%	13.47%	13.47%
12	Rate of Return on Common Equity (%)	14.00%	14.00%	10.50%	10.50%

References:

Column (A): Company Schedule B-1

Column (B): Company Schedules A-1, A-2, & D-1

Column (C): Staff Schedule GTM-2 , GTM-3 & GTM-7

Column (D): Staff Schedule GTM-2 , GTM-3 & GTM-7

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Rate (Line 23)	37.3781%			
5	Subtotal (L3 - L4)	62.6219%			
6	<b>Revenue Conversion Factor (L1 / L5)</b>	<b>1.596885763</b>			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 17)	36.0631%			
9	One Minus Combined Income Tax Rate (L7 - L8)	63.9369%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 53)	31.2743%			
16	Effective Federal Income Tax Rate (L14 * L15)	29.0951%			
17	Combined Federal and State Income Tax Rate (L13 + L16)	36.0631%			
<u>Calculation of Effective Property Tax Factor:</u>					
18	Unity	100.0000%			
19	Combined Federal and State Tax Rate (Line 17)	36.0631%			
20	One Minus Combined Income Tax Rate (L18 - L19)	63.9369%			
21	Property Tax Factor (GTM-11, L24)	2.0567%			
22	Effective Property Tax Factor (L20 * L21)	1.3150%			
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		37.3781%		
24	Required Operating Income (Schedule GTM-1, Line 5)	\$ 259,882			
25	Adjusted Test Year Operating Income (Loss) (Schedule GTM-7, Line 34)	\$ 185,381			
26	Required Increase in Operating Income (L24 - L25)		\$ 74,511		
27	Income Taxes on Recommended Revenue (Col. (D), L52)	\$ 49,874			
28	Income Taxes on Test Year Revenue (Col. (B), L52)	\$ 7,847			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 42,027		
30	Recommended Revenue Requirement (Schedule GTM-1, Line 10)	\$ 1,002,515			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -		
35	Property Tax with Recommended Revenue (GTM-11, L19)	\$ 56,961			
36	Property Tax on Test Year Revenue (GTM-11, L16)	\$ 54,514			
37	Increase in Property Tax Due to Increase in Revenue (GTM-11, L22)		\$ 2,447		
38	<b>Total Required Increase in Revenue (L26 + L29 + L34+L37)</b>		<b>\$ 118,985</b>		
<u>Calculation of Income Tax:</u>					
		Test Year		STAFF Recommended	
39	Revenue (Schedule GTM-7, Col.(C), Line 5 & Sch. GTM-1, Col. (B), Line 10)	\$ 883,530		\$ 1,002,515	
40	Operating Expenses Excluding Income Taxes	\$ 690,302		\$ 692,749	
41	Synchronized Interest (L56)	\$ 155,723		\$ 155,723	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 37,505		\$ 154,043	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 * L43)	\$ 2,613		\$ 10,734	
45	Federal Taxable Income (L42 - L44)	\$ 34,892		\$ 143,309	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 5,234		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	\$ -		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ -		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ -		\$ 16,891	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ -	
51	Total Federal Income Tax	\$ 5,234		\$ 39,141	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 7,847		\$ 49,874	
53	Applicable Federal Income Tax Rate (Col. (D), L51 - Col. (B), L51) / (Col. (C), L45 - Col. (A), L45)				31.27%
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule GTM-3, Col. (C), Line (14))	\$ 3,531,141			
55	Weighted Average Cost of Debt (Schedule C-2, p 14)	4.41%			
56	Synchronized Interest (L45 X L46)	\$ 155,723			

CORONADO UTILITIES, INC.  
Docket No. SW-04305A-09-0291  
Test Year ended December 31, 2008

Schedule GTM-3

**RATE BASE - ORIGINAL COST**

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 4,428,471	\$ -	\$ 4,428,471
2	Less: Accumulated Depreciation	398,932	8,146	407,078
3	Net Plant in Service	<u>\$ 4,029,539</u>	<u>\$ (8,146)</u>	<u>\$ 4,021,393</u>
<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 603,201	\$ -	\$ 603,201
5	Less: Accumulated Amortization	9,755	-	9,755
6	Net CIAC	<u>\$ 593,446</u>	<u>\$ -</u>	<u>\$ 593,446</u>
7	Advances in Aid of Construction (AIAC)	-	-	-
8	Customer Deposits	19,809	-	19,809
9	Deferred Income Tax Credits	-	-	-
<u>ADD:</u>				
10	Unamortized Finance Charges	82,938	-	82,938
11	Deferred Income Tax Debits	37,425	2,639	40,064
12	Working Capital	-	-	-
13	Rounding	1	-	1
14	<b>Original Cost Rate Base</b>	<u>\$ 3,536,648</u>	<u>\$ (5,507)</u>	<u>\$ 3,531,141</u>

References:

Column (A), Company Schedule B-1 , GTM-4  
Column [B]: Column [C] - Column [A]  
Column [C], Staff Adjusted Total Col.

## SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	(A) COMPANY AS FILED	Deferred Taxes GTM-5 (B)	Accumulated Depreciation GTM-6 (C)	(D) ADJ #	(E) ADJ #	(F) ADJ #	(G) STAFF ADJUSTED
<b>PLANT IN SERVICE:</b>									
1	351	Organization Cost	\$ 5,194	\$ -	\$ -	\$ -	\$ -	\$ -	5,194
2	352	Franchise Cost	-	-	-	-	-	-	-
3	353	Land and Land Rights	315,001	-	-	-	-	-	315,001
4	354	Structures and Improvements	1,858	-	-	-	-	-	1,858
5	355	Power Generation Equipment	-	-	-	-	-	-	-
6	360	Collection Sewer Forced	-	-	-	-	-	-	-
7	361	Collection Sewer Gravity	59,350	-	-	-	-	-	59,350
8	362	Special Collecting Structures	1,576	-	-	-	-	-	1,576
9	363	Customer Services	-	-	-	-	-	-	-
10	364	Flow Measuring Devices	-	-	-	-	-	-	-
11	365	Flow Measuring Installation	-	-	-	-	-	-	-
12	366	Reuse Services	-	-	-	-	-	-	-
13	367	Reuse Meters and Installation	-	-	-	-	-	-	-
14	370	Receiving Wells	16,133	-	-	-	-	-	16,133
15	371	Pumping Equipment	15,223	-	-	-	-	-	15,223
16	374	Reuse Distribution Reservoirs	-	-	-	-	-	-	-
17	375	Reuse Transmission & Distrib. System	-	-	-	-	-	-	-
18	380	Treatment & Disposal Equipment	3,243,375	-	-	-	-	-	3,243,375
19	381	Plant Sewers	-	-	-	-	-	-	-
20	382	Outfall Sewer Lines	540,205	-	-	-	-	-	540,205
21	389	Other Sewer Plant & Equipment	178,135	-	-	-	-	-	178,135
22	390	Office Furniture and Equipment	-	-	-	-	-	-	-
23	390.1	Computers and Software	-	-	-	-	-	-	-
24	391	Transportation Equipment	-	-	-	-	-	-	-
25	392	Stores Equipment	-	-	-	-	-	-	-
26	393	Tools, Shop and Garage Equipment	-	-	-	-	-	-	-
27	394	Laboratory Equipment	-	-	-	-	-	-	-
28	396	Communication Equipment	-	-	-	-	-	-	-
29	398	Other Tangible Plant	52,423	-	-	-	-	-	52,423
30		Rounding	(2)	-	-	-	-	-	(2)
31		Subtotal Plant in Service	\$ 4,428,471	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,428,471
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**CORONADO UTILITIES, INC.**  
Docket No. SW-04305A-09-0291  
Test Year ended December 31, 2008

Schedule GTM-5

**ORIGINAL COST RATE BASE ADJUSTMENT # 1 - DEFERRED TAXES**

<u>Line</u> <u>No.</u>	<u>Account</u> <u>Number</u>	<u>DESCRIPTION</u>	<u>[A]</u> <u>COMPANY</u> <u>PROPOSED</u>	<u>[B]</u> <u>STAFF</u> <u>ADJUSTMENTS</u>	<u>[C]</u> <u>STAFF</u> <u>RECOMMENDED</u>
1		Deferred Income Tax Debits	\$ 37,425	\$ 2,639	\$ 40,064

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

CORONADO UTILITIES, INC.  
Docket No. SW-04305A-09-0291  
Test Year ended December 31, 2008

Schedule GTM-6

ORIGINAL COST RATE BASE ADJUSTMENT # 2 - ACCUMULATED DEPRECIATION

LINE NO.	Account Number	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	371	Pumping Equipment	\$ 15,223	190	\$ 15,413
2	382	Outfall Sewer Lines	\$ 540,205	(8,336)	\$ 531,869
3		Accumulated Depreciation	<u>\$ 398,932</u>	<u>\$ 8,146</u>	<u>\$ 407,078</u>

			Rate used by Company	Rate approved by Commission (Dec. No. 68608)
4	371	Pumping Equipment	12.50%	10.00%
5	382	Outfall Sewer Lines	3.33%	4.00%

			Expensed by Company	Approved Depreciation Charge	Accumulated Depreciation
6	371	Pumping Equipment	951	761	(190)
7	382	Outfall Sewer Lines	35,933	44,269	8,336
8		Increase to Accumulated Depreciation			<u>8,146</u>

References:

Col [A]: Company Schedule B-1

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>OPERATING REVENUES:</u>					
2	Flat Rate Revenues	\$ 710,657	\$ -	\$ 710,657	\$ 112,323	\$ 822,980
3	Measured Revenues	157,655	-	157,655	6,662	164,317
4	Other Waste Water Revenues	15,218	-	15,218	-	15,218
5	<b>Total Operating Revenues</b>	<b>\$ 883,530</b>	<b>\$ -</b>	<b>\$ 883,530</b>	<b>\$ 118,985</b>	<b>\$ 1,002,515</b>
6						
7	<u>OPERATING EXPENSES:</u>					
8	Salaries and Wages	\$ 52,500	\$ -	\$ 52,500	\$ -	\$ 52,500
9	Purchased Wastewater Treatment	-	-	-	-	-
10	Sludge Removal Expenses	-	-	-	-	-
11	Purchased Power	54,218	-	54,218	-	54,218
12	Fuel for Power Production	-	-	-	-	-
13	Chemicals	27,790	-	27,790	-	27,790
14	Material and Supplies	2,978	-	2,978	-	2,978
15	Contractual Services	141,386	-	141,386	-	141,386
16	Contractual Services - Testing	3,676	-	3,676	-	3,676
17	Contractual Services - other	41,341	-	41,341	-	41,341
18	Equipment Rental	-	-	-	-	-
19	Rents - Building	-	-	-	-	-
20	Transportation Expenses	209	-	209	-	209
21	Insurance - General Liability	11,066	-	11,066	-	11,066
22	Insurance - Other	-	-	-	-	-
23	Regulatory Expenses	3,505	-	3,505	-	3,505
24	Regulatory Commission Expense	58,333	-	58,333	-	58,333
25	Miscellaneous Expense	37,081	-	37,081	-	37,081
26	Bad Debt Expense	46,313	(27,881)	18,432	-	18,432
27	Depreciation and Amortization	186,095	(8,343)	177,752	-	177,752
28	Taxes other than Income	5,521	-	5,521	-	5,521
29	Property Taxes	57,733	(3,219)	54,514	2,447	56,961
30	Income Tax	(711)	8,558	7,847	42,027	49,874
31	Rounding	(1)	1	-	-	-
32	<b>Total Operating Expenses</b>	<b>\$ 729,033</b>	<b>\$ (30,884)</b>	<b>\$ 698,149</b>	<b>\$ 44,474</b>	<b>\$ 742,623</b>
33						
34	<b>Operating Income</b>	<b>\$ 154,497</b>	<b>\$ 30,884</b>	<b>\$ 185,381</b>	<b>\$ 74,511</b>	<b>\$ 259,892</b>

References:  
Column [A]: Company Schedule C-1  
Column [B]: Schedule GTM-8  
Column [C]: Column [A] + Column [B]  
Column [D]: Schedules GTM-1 and GTM-2  
Column [E]: Column [C] + Column [D]



## CORONADO UTILITIES, INC.

Docket No. SW-04305A-08-0291

Test Year ended December 31, 2008

## SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	Normalize Bad Debt Expense (B) ADJ #1	Depreciation Expense (C) ADJ #2	Property Taxes (D) ADJ #3	Income Taxes (E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) STAFF ADJUSTED
1	<u>Operating Revenues:</u>								
2	Fiat Rate Revenues	\$ 710,657	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 710,657
3	Measured Revenues	157,655	-	-	-	-	-	-	157,655
4	Other Waste Water Revenues	15,218	-	-	-	-	-	-	15,218
5	Total Operating Revenues	\$ 883,530	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 883,530
6									
7	<u>Operating Expenses:</u>								
8	Salaries and Wages	\$ 52,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	52,500
9	Purchased Wastewater Treatment	-	-	-	-	-	-	-	-
10	Sludge Removal Expenses	-	-	-	-	-	-	-	-
11	Purchased Power	54,218	-	-	-	-	-	-	54,218
12	Fuel for Power Production	-	-	-	-	-	-	-	-
13	Chemicals	27,790	-	-	-	-	-	-	27,790
14	Material and Supplies	2,978	-	-	-	-	-	-	2,978
15	Contractual Services	141,386	-	-	-	-	-	-	141,386
16	Contractual Services - Testing	3,676	-	-	-	-	-	-	3,676
17	Contractual Services - other	41,341	-	-	-	-	-	-	41,341
18	Equipment Rental	-	-	-	-	-	-	-	-
19	Rents - Building	-	-	-	-	-	-	-	-
20	Transportation Expenses	209	-	-	-	-	-	-	209
21	Insurance - General Liability	11,066	-	-	-	-	-	-	11,066
22	Insurance - Other	-	-	-	-	-	-	-	-
23	Regulatory Expenses	3,505	-	-	-	-	-	-	3,505
24	Regulatory Commission Expense	58,333	-	-	-	-	-	-	58,333
25	Miscellaneous Expense	37,081	-	-	-	-	-	-	37,081
26	Bad Debt Expense	46,313	(27,881)	-	-	-	-	-	18,432
27	Depreciation and Amortization	186,095	-	(8,343)	-	-	-	-	177,752
28	Taxes other than Income	5,521	-	-	-	-	-	-	5,521
29	Property Taxes	57,733	-	-	(3,219)	-	-	-	54,514
	Income Tax	(711)	-	-	-	8,558	-	-	7,847
	Rounding	(1)	-	-	-	-	-	-	-
30	Total Operating Expenses	\$ 729,033	\$ (27,881)	\$ (8,343)	\$ (3,219)	\$ 8,558	\$ -	\$ -	\$ 698,149
	<b>Operating Income</b>	<b>\$ 154,497</b>	<b>\$ 27,881</b>	<b>\$ 8,343</b>	<b>\$ 3,219</b>	<b>\$ (8,558)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 185,381</b>

References:

Column [A] Company Schedule C-1

CORONADO UTILITIES, INC.  
Docket No. SW-04305A-09-0291  
Test Year ended December 31, 2008

Schedule GTM-9

OPERATING INCOME ADJUSTMENT # 1 - NORMALIZE BAD DEBT EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Bad Debt Expense	\$ 46,313	\$ (27,881)	\$ 18,432
	<u>Bad Debt Expense</u>			
2	2006	\$ 3,483		
3	2007	5,500		
4	2008	46,312		
5	Total	<u>\$ 55,295</u>		
		3		
6	Normalized Amount	<u>\$ 18,432</u>		

References:

Col [A]: Company Schedule C-1 Page 3

Col [B]: GTM Testimony

Col [C]: Col. [A] + Col. [B]

OPERATING INCOME ADJUSTMENT # 2 - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Operating Income	\$ 186,095	\$ (8,343)	\$ 177,752

OPERATING INCOME ADJUSTMENT # - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	[C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
		<b>Plant In Service</b>				
2	351	Organization Cost	\$ 5,194	5,194	0.00%	\$ -
3	352	Franchise Cost	-	-	0.00%	-
4	353	Land and Land Rights	315,001	315,001	0.00%	-
5	354	Structures and Improvements	1,858	1,858	3.33%	62
6	355	Power Generation Equipment	-	-	5.00%	-
7	360	Collection Sewer Forced	-	-	2.00%	-
8	361	Collection Sewer Gravity	59,350	59,350	2.00%	1,187
9	362	Special Collecting Structures	1,576	1,576	2.00%	32
10	363	Customer Services	-	-	2.00%	-
11	364	Flow Measuring Devices	-	-	10.00%	-
12	365	Flow Measuring Installation	-	-	10.00%	-
13	366	Reuse Services	-	-	2.00%	-
14	367	Reuse Meters and Installation	-	-	8.33%	-
15	370	Receiving Wells	16,133	16,133	3.33%	537
16	371	Pumping Equipment	15,223	15,223	12.50%	1,903
17	374	Reuse Distribution Reservoirs	-	-	2.50%	-
18	375	Reuse Transmission & Distrib. System	-	-	2.50%	-
19	380	Treatment & Disposal Equipment	3,243,375	3,243,375	5.00%	162,169
20	381	Plant Sewers	-	-	5.00%	-
21	382	Outfall Sewer Lines	540,205	540,205	3.33%	17,989
22	389	Other Sewer Plant & Equipment	178,135	178,135	6.67%	11,882
23	390	Office Furniture and Equipment	-	-	6.67%	-
24	390	Computers and Software	-	-	20.00%	-
25	391	Transportation Equipment	-	-	20.00%	-
26	392	Stores Equipment	-	-	4.00%	-
27	393	Tools, Shop and Garage Equipment	-	-	5.00%	-
28	394	Laboratory Equipment	-	-	10.00%	-
29	396	Communication Equipment	-	-	10.00%	-
30	398	Other Tangible Plant	52,423	52,423	4.00%	2,097
		Subtotal General	\$ 4,428,473	\$ 4,428,473		\$ 197,857
31		Less: Non- depreciable Account(s)	320,195	320,195		
32		Depreciable Plant (L29-L30)	\$ 4,108,278	\$ 4,108,278		
33		Contributions-in-Aid-of-Construction (CIAC)			\$ 603,201	
34		Composite Depreciation/Amortization Rate			3.33%	
35		Less: Amortization of CIAC (L32 x L33)				\$ 20,105
36		<b>Depreciation Expense - STAFF</b>				<b>\$ 177,752</b>

**CORONADO UTILITIES, INC.**

Docket No. SW-04305A-09-0291

Test Year ended December 31, 2008

Schedule GTM-11

**OPERATING INCOME ADJUSTMENT # 3 - PROPERTY TAXES**

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2008	\$ 883,530	\$ 883,530
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	\$ 1,767,060	\$ 1,767,060
4a	Staff Adjusted Test Year Revenues - 2008	883,530	
4b	Staff Recommended Revenue, Per Schedule GTM-1		1,002,515
5	Subtotal (Line 4 + Line 5)	\$ 2,650,590	\$ 2,769,575
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	\$ 883,530	\$ 923,192
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	\$ 1,767,060	\$ 1,846,383
10	Plus: 10% of CWIP -		-
11	Less: Net Book Value of Licensed Vehicles		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)	\$ 1,767,060	\$ 1,846,383
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	371,083	\$ 387,741
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3, Line 16)	14.6906%	14.6906%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$ 54,514	
17	Company Proposed Property Tax	57,733	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (3,219)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 56,961
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 54,514
21	Increase/(Decrease) to Property Tax Expense Due to Revenue Increase/(Decrease)		\$ 2,447
22	Decrease to Property Tax Expense		\$ 2,447
23	Increase in Revenue Requirement		118,985
24	Decrease to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		2.058684%

References:

Col [A]: Company Schedule C-1 Page 3

Col [B]: GTM Testimony

Col [C]: Schedule GTM-2

CORONADO UTILITIES, INC.

Docket No. SW-04305A-09-0291

Test Year ended December 31, 2008

Schedule GTM-12

**OPERATING INCOME ADJUSTMENT # 4 - INCOME TAXES**

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Income Tax	\$ (711)	\$ 8,558	\$ 7,847
2				
3				
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9				
10				
11	<u>References:</u>			
12	Col [A]: Company Schedule C-1 Page 3			
13	Col [B]: GTM Testimony			
14	Col [C]: Schedule GTM-2			

## RATE DESIGN

Monthly Fixed Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
Residential	\$ 46.50	\$ 54.73	\$ 52.80
Commercial	\$ 7.50	\$ 8.83	\$ 8.50
Mobile Home Park - Winter	\$ 7.50	\$ 8.83	\$ 8.50
Mobile Home Park - Summer	\$ 31.86	\$ 37.50	\$ 36.20
School	\$ 7.50	\$ 8.83	\$ 8.50
Effluent	\$ -	\$ -	\$ -
<b>Commodity Rates (M-gal)</b>			
Residential			
From 1 to Infinite Gallons	\$ -	\$ -	\$ -
Commercial			
From 1 to Infinite Gallons	\$ 9.80	\$ 11.54	\$ 11.15
Mobile Home Park - Winter			
From 1 to Infinite Gallons	\$ 5.70	\$ 6.71	\$ 6.50
Mobile Home Park - Summer			
From 1 to Infinite Gallons	\$ -	\$ -	\$ -
School			
From 1 to Infinite Gallons	\$ 3.12	\$ 3.68	\$ 3.55
Effluent			
From 1 to Infinite Gallons	\$ 0.15	\$ 0.20	\$ 0.20
	Present	Company Proposed	Staff Recommended
<b>Service Charges</b>			
Establishment of Service	\$25.00	\$25.00	\$25.00
Reconnection (delinquent)	\$35.00	\$35.00 + cost (a)	35 (b)
Deposit	(c)	(c)	(c)
Deposit Interest	(d)	3.50%	6.0%
Re-Establishment (After Hours)	(e)	(e)	(e)
Late fee	1.5%	1.5%	1.5%
NSF Check	25.00	\$25.00	\$25.00
Deferred Payment, Per Month	1.5%	1.50%	1.5%
Main Extension and additional facilities agreements	cost	cost	cost
Service Calls	NT	\$40.00	\$40.00

NT = No Tariff

- (a) Reconnection fee "cost" of physical disconnection and reconnection including parts, labor, overhead, and all applicable taxes.
- (b) Company will be allowed to charge customer the actual "cost" of physical disconnection and reconnection only if 1) sewer provider is unable to negotiate a water termination services agreement with the water provider or 2) that the customer does not make current the account subsequent to water service termination.
- (c) Residential - two times the average bill. Non-residential - two and one-half times the average bill as per R14-2-603(B).
- (d) As per Commission Rule ACC R14-2-603 (B).
- (e) As per Commission Rule ACC R14-2-603 (d).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, sales, use, and franchise tax. Per Commission Rule (14-2-409.D.5).

All advances and/or contributions are to include labor, materials, overheads and all applicable taxes, Cost to include labor, materials and parts, overheads and all applicable taxes.

**Typical Bill Analysis**  
Residential - flat rate

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	-	\$ 46.50	\$ 54.73	\$ 8.23	17.70%
Median Usage	-	46.50	54.73	\$ 8.23	17.70%

Staff Recommended

Average Usage	-	\$ 46.50	\$ 52.80	\$ 6.30	13.56%
Median Usage	-	46.50	52.80	\$ 6.30	13.56%

**Present & Proposed Rates (Without Taxes)**  
Residential - flat rate

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 46.50	\$ 54.73	17.70%	\$ 52.80	13.56%
1,000	46.50	54.73	17.70%	52.80	13.56%
2,000	46.50	54.73	17.70%	52.80	13.56%
3,000	46.50	54.73	17.70%	52.80	13.56%
4,000	46.50	54.73	17.70%	52.80	13.56%
5,000	46.50	54.73	17.70%	52.80	13.56%
6,000	46.50	54.73	17.70%	52.80	13.56%
7,000	46.50	54.73	17.70%	52.80	13.56%
8,000	46.50	54.73	17.70%	52.80	13.56%
9,000	46.50	54.73	17.70%	52.80	13.56%
10,000	46.50	54.73	17.70%	52.80	13.56%
11,000	46.50	54.73	17.70%	52.80	13.56%
12,000	46.50	54.73	17.70%	52.80	13.56%
13,000	46.50	54.73	17.70%	52.80	13.56%
14,000	46.50	54.73	17.70%	52.80	13.56%
15,000	46.50	54.73	17.70%	52.80	13.56%
16,000	46.50	54.73	17.70%	52.80	13.56%
17,000	46.50	54.73	17.70%	52.80	13.56%
18,000	46.50	54.73	17.70%	52.80	13.56%
19,000	46.50	54.73	17.70%	52.80	13.56%
20,000	46.50	54.73	17.70%	52.80	13.56%
25,000	46.50	54.73	17.70%	52.80	13.56%
30,000	46.50	54.73	17.70%	52.80	13.56%
35,000	46.50	54.73	17.70%	52.80	13.56%
40,000	46.50	54.73	17.70%	52.80	13.56%
45,000	46.50	54.73	17.70%	52.80	13.56%
50,000	46.50	54.73	17.70%	52.80	13.56%
75,000	46.50	54.73	17.70%	52.80	13.56%
100,000	46.50	54.73	17.70%	52.80	13.56%

**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF )  
CORONADO UTILITIES, INC. FOR A )  
DETERMINATION OF THE FAIR VALUE OF )  
IT'S UTILITY PLANT AND PROPERTY AND )  
FOR INCREASE IN ITS WATER RATES AND )  
CHARGES FOR UTILITY SERVICES )

DOCKET NO. SW-04305A-09-0291

DIRECT

TESTIMONY

OF

KATRIN STUKOV

UTILITIES ENGINEER

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

FEBRUARY 12, 2010



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ENGINEERING REPORT .....	2

## EXHIBIT

Engineering Report .....	Exhibit KS
--------------------------	------------

**INTRODUCTION**

**Q. Please state your name, place of employment and job title.**

A. My name is Katrin Stukov. My place of employment is the Arizona Corporation Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

**Q. How long have you been employed by the Commission?**

A. I have been employed by the Commission since June 2006.

**Q. Please list your duties and responsibilities.**

A. As a Utilities Engineer, specializing in water and wastewater engineering, I inspect and evaluate water and wastewater systems; obtain data, prepare reports; suggest corrective action, provide technical recommendations on water and wastewater system deficiencies; and provide written and oral testimony on rate and other cases before the Commission.

**Q. How many cases have you analyzed for the Utilities Division?**

A. I have analyzed over 50 cases covering various responsibilities for the Utilities Division.

**Q. What is your educational background?**

A. I graduated from the Moscow University of Civil Engineering with a Bachelor of Science degree in Civil Engineering with a concentration in water and wastewater systems.

**Q. Briefly describe your pertinent work experience.**

A. Prior to my employment with the Commission, I was a design review environmental engineer with the Arizona Department of Environmental Quality ("ADEQ") for twenty years. My responsibilities with ADEQ included review of projects for the construction of

1 water and wastewater facilities. Prior to that, I worked as a civil engineer in several  
2 engineering and consulting firms, including Bechtel, Inc. and Brown & Root, Inc., in  
3 Houston, Texas.

4  
5 **PURPOSE OF TESTIMONY**

6 **Q. Were you assigned to provide the Utilities Division Staff's ("Staff") engineering**  
7 **analysis and recommendations for this Coronado Utilities Inc("Coronado" or**  
8 **"Company") rate case proceeding?**

9 A. Yes. I reviewed the Company's application and responses to data requests, and I visited  
10 the wastewater system. This testimony and its attachment present Staff's engineering  
11 evaluation.

12  
13 **ENGINEERING REPORT**

14 **Q. Please describe the attached Engineering Report, Exhibit KS.**

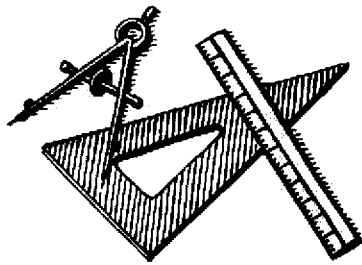
15 A. Exhibit KS presents the Company's wastewater system details and Staff's analysis and  
16 findings, and is attached to this direct testimony. Exhibit KS contains the following major  
17 topics: (1) a description of the wastewater system, (2) analysis of the wastewater system,  
18 (3) growth, (4) compliance with the rules of the ADEQ, (5) depreciation rates and  
19 (6) Staff's conclusions and recommendations.

20  
21 **Q. Please summarize Staff's engineering conclusions and recommendations.**

22 A. Such a summary is provided at the beginning of Exhibit KS.

23  
24 **Q. Does this conclude your direct testimony?**

25 A. Yes, it does.



**ENGINEERING REPORT FOR  
CORONADO UTILITIES INC.  
WASTEWATER RATE APPLICATION  
DOCKET NO. SW-04305A-09-0291**

**November 2, 2009**

**SUMMARY**

**CONCLUSIONS**

1. The Arizona Department of Environmental Quality ("ADEQ") has reported that the Company's wastewater system is currently in compliance with its rules and regulations.
2. The wastewater system is adequate to serve the present customer base and reasonable growth.
3. The Company has no outstanding Arizona Corporation Commission ("ACC") compliance issues.

**RECOMMENDATIONS**

1. Staff recommends that the Company adopt Staff's typical and customary depreciation rates as presented in Table A on a going- forward basis.
2. Staff recommends approval of its Service Lateral Installation Charges labeled "Staff's Recommendations in Table B.

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1. Service Lateral Installation Charges .....	9

## A. INTRODUCTION AND LOCATION OF COMPANY

On June 4, 2009, Coronado Utilities ("Coronado" or "Company") filed a wastewater rate application with the Arizona Corporation Commission ("ACC" or "Commission"). The Company serves its customers in an area which is located in and around the unincorporated Town of San Manuel in Pinal County, Arizona.

Figure 1 shows the location of the Company within Pinal County and Figure 2 delineates the approximate 8 square miles or 5,098 acres of certificated area.

Figure 1

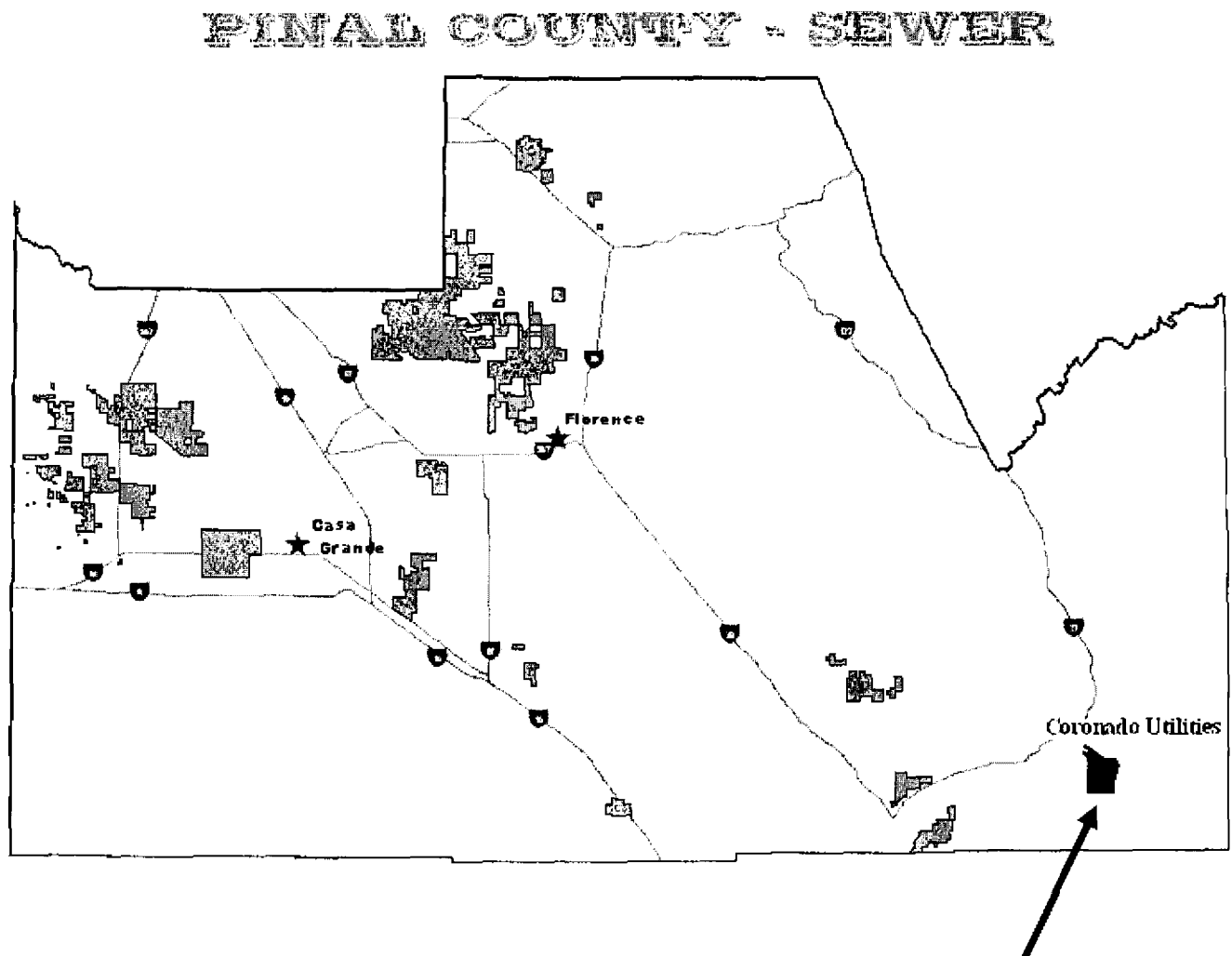
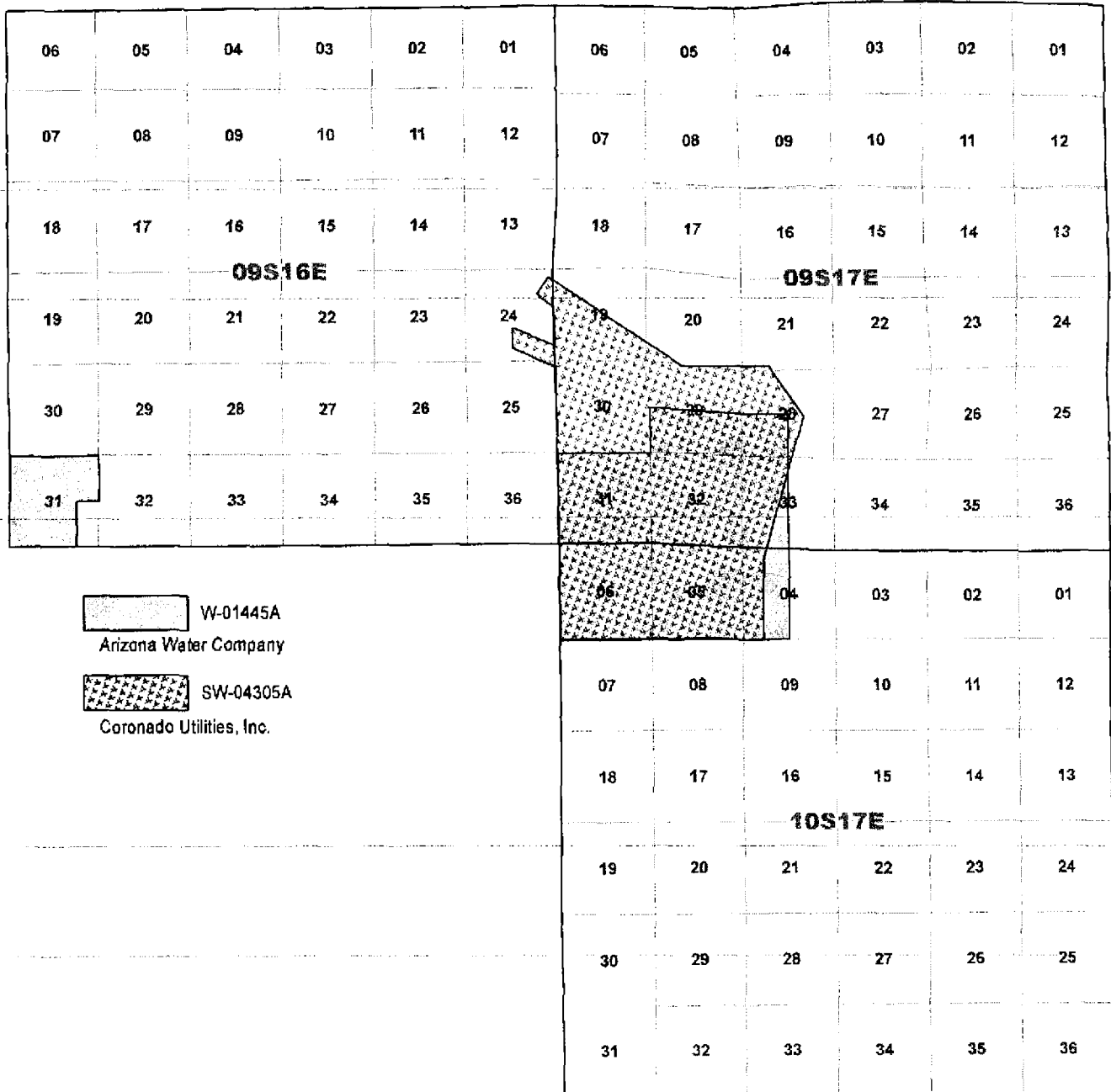


Figure 2

# PINAL COUNTY



## B. DESCRIPTION OF THE WASTEWATER SYSTEM

The plant facilities were visited on October 29, 2009, by Katrin Stukov in the accompaniment of Tony Moreno, the utility onsite representative and the utility operators Dan Shanaman and Steven Chiquete.

The Company provides wastewater service to the San Manuel community using collection, treatment and disposal facilities. The wastewater system served approximately 1,300 customers during the test year of 2008.

The collection system consists of a combination of gravity and force mains and two lift stations. The operation of the San Manuel wastewater treatment facilities includes a Santec 350,000 gallons per day ("GPD") wastewater treatment plant ("WWTP") completed in 2007. Prior to that, wastewater from the community of San Manuel was treated at the former BHP Copper Company ("BHP") old WWTP (which has been abandoned and closed in November 2007). The new WWTP is constructed at the old WWTP site<sup>1</sup>. The new WWTP is an extended aeration, activated sludge process which incorporates de-nitrification in the secondary treatment process. The facility utilizes grit and solids removal, influent flow metering, flow equalization basins, sludge treatment and handling, disinfection using chlorination/de-chlorination, standby power, and ancillary laboratory and control buildings. The produced effluent is disposed via golf course irrigation at the San Manuel Golf Club, located approximately 3 miles from the WWTP.

Figure 3 provides a process schematic for the wastewater system and the plant facilities summary is tabulated below:

Wastewater Treatment Facility

Type of Treatment	Modified extended aeration process with de-nitrification
Design Capacity (gallons per day -"GPD")	350,000
Solid Processing and Handling Facilities	Grit chamber, bar screen, roto-screen. Sludge digesting tank with scam pump and sludge drying beds
Disinfection Equipment	Liquid Chlorination System & Chlorine Contact Tank
Filtration Equipment	None
Structures	Operations building, perimeter fence
Others	Process and testing equipment; flow meters; pressure washer; a 150 kw backup generator; backhoe; utility truck

<sup>1</sup> The WWTP site is located at 88606 E. Magma Plant Rd. in San Manuel.



## Lift Stations

#	Location	Pumps			Wet Well Capacity (gallons)	Components
		Quantity	Horsepower per pump (HP)	Capacity per pump (GPM)		
1	Rancho San Manuel Lift Station, Mobil Manor Ocotillo St.	2	4.5	480	2,114	Fence
2	Airport Lift Station <sup>2</sup> , Airport Rd. (Has been out of service from June 2008)	2	4.5	480	897	Fence
3	Effluent Lift Station, WWTP site	2	50	400	20,000	Flow meter

## Force Mains

Size	Location	Material	Length (in feet)
4-inch	Force Main from airport lift station (has been out of service from June 2008- see footnote #1)	PVC	3,600
4-inch	Force Main from Rancho San Manuel ("RSM") lift station to manhole at top of trailer park	PVC	820
8-inch	Effluent (reclaimed water) force main to golf course	HDPE	15,800

## Collection Mains

Size (in inches)	Material	Length (in feet)
6	Clay	44,973
8	Clay	35,068
10	Clay	6,275
12	Clay	2,350
15	Clay	10,485

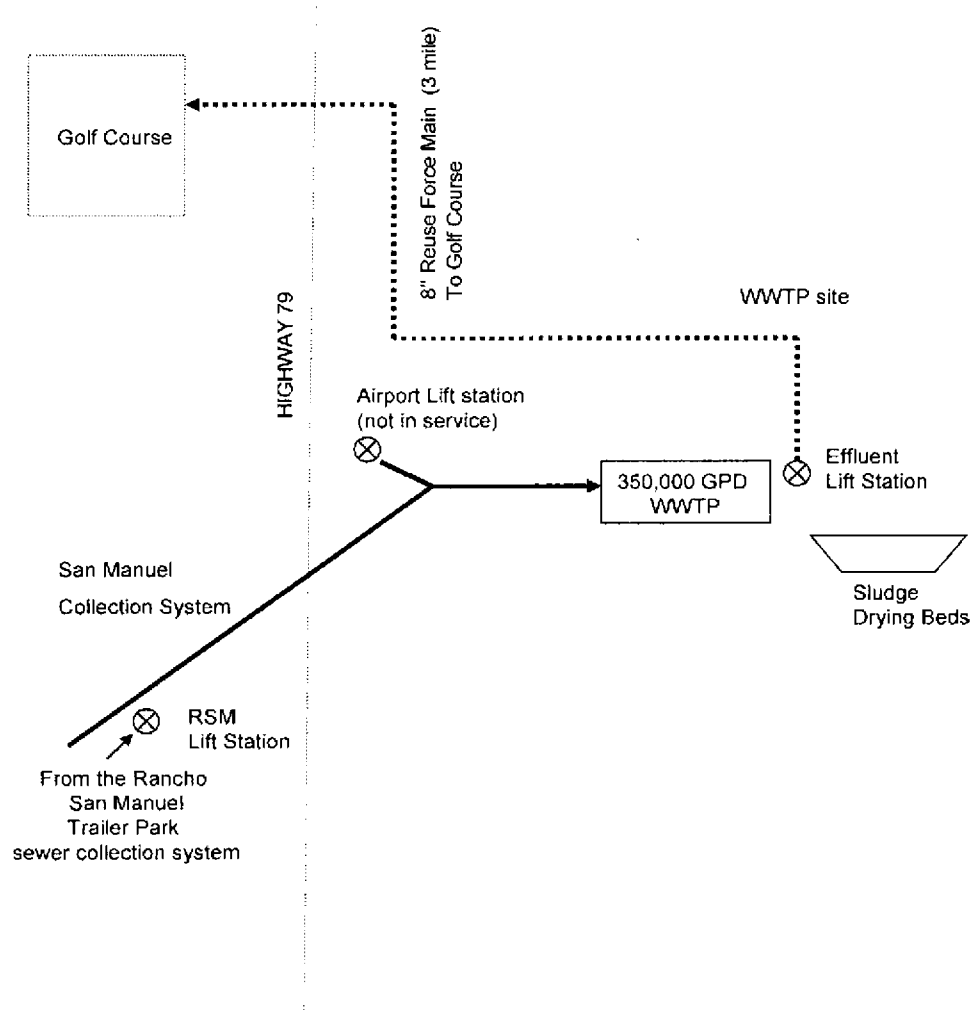
## Services

Size (in inches)	Material	Quantity
4	Clay/PVC	1500
8	Clay/PVC	20

Manholes		Cleanouts
Type	Quantity	Quantity
Standard	314	5

<sup>2</sup> This lift station is for the Highland Trailer Park. The Company reported that the owner of the Highland Trailer Park is redeveloping the property, and disconnected his commercial sewer account in June 2008.

Figure 2  
System Schematic

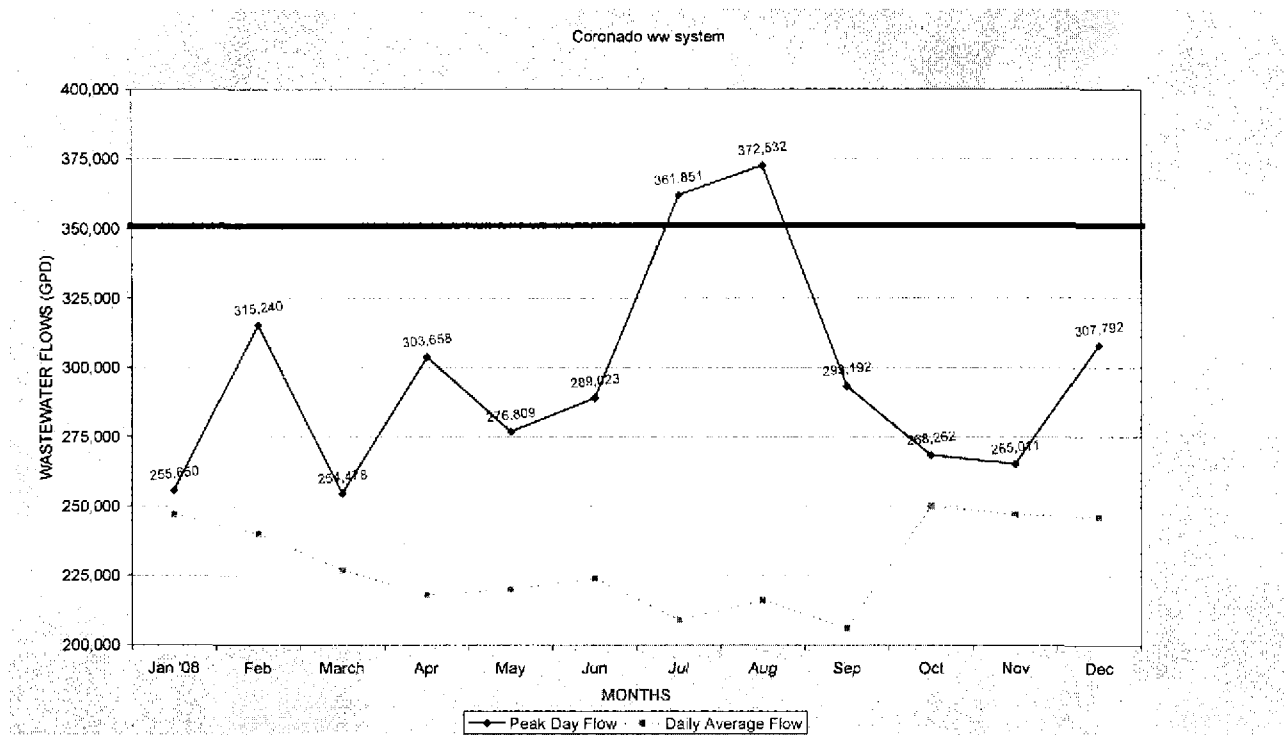


### C. WASTEWATER SYSTEM ANALYSIS

Figure 3 represents the monthly wastewater flows data provided by the Company for the test year ending December 31, 2008.

For the average daily flows, October 2008 experienced the highest flow of 250,000 GPD. For the peak day flows, August 2008 had the highest flow when 372,532 gallons were treated in one day. Based on the average day-peak month flow of 250,000 gallons, or 189 GPD per sewer lateral, the 350,000 GPD WWTP capacity is adequate to serve the present customer base and reasonable growth.

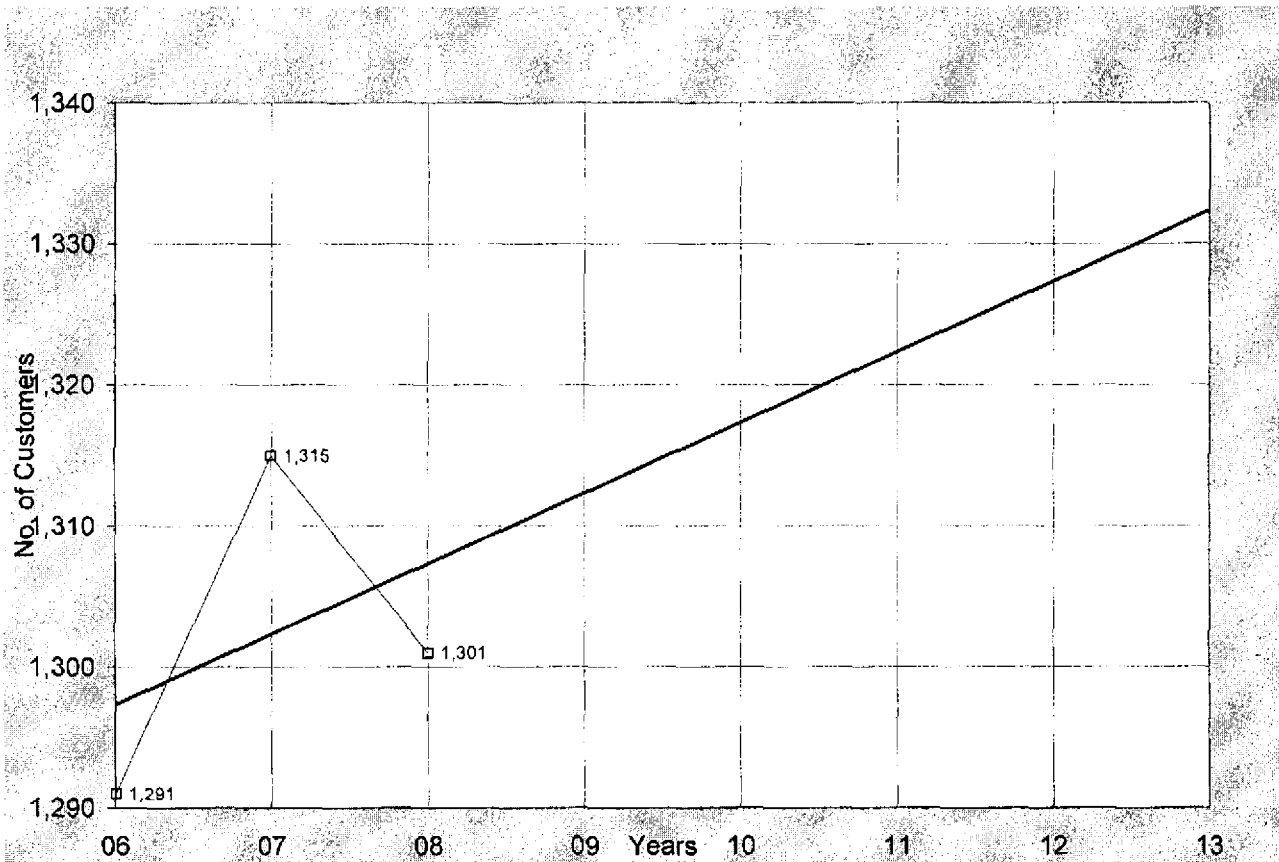
Figure 3 Wastewater Flows



## D. GROWTH

Based on customer data provided by the Company in its Annual Reports, limited growth is expected to occur in the area being served, it is projected that this system could have over 1,330 sewer connections by 2013. Figure 4 depicts actual growth from 2006<sup>3</sup> to 2008 and projects an estimated growth in the service area for the next five years using linear regression analysis.

Figure 4 Growth Projection



## E. ADEQ COMPLIANCE

ADEQ regulates the wastewater system under ADEQ Wastewater Inventory Number 105607. Based on a Compliance Status Report, dated November 2, 2009, ADEQ has determined that this system is currently in compliance with its rules and regulations.

## F. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for the Company<sup>4</sup>.

<sup>3</sup> 2006 Annual Report was the first Annual Report filed by the Company.

<sup>4</sup> Per ACC Compliance status check dated October 27, 2009.

**G. DEPRECIATION RATES**

Staff has developed typical and customary wastewater depreciation rates within a range of anticipated equipment life. In this proceeding, the Company proposed rates are similar to Staff's typical Wastewater Depreciation Rates except for Account 398 - Other Tangible Plant (may vary from 5% to 50%). Staff recommends that the Company adapt Staff's typical and customary depreciation rates as presented in Table A on a going-forward basis.

**TABLE A  
WASTEWATER DEPRECIATION RATES**

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers - Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.0
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	----	----

NOTE: Acct. 398, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

**H. OTHER ISSUES****1. Service Lateral Installation Charges**

The Company's current service lateral installation charges are At Cost, and the Company has not requested any changes, except for delineation of service lateral sizes. Staff has reviewed the proposed tariff and found it to be reasonable, except for inclusion of income tax. Therefore, Staff recommends approval of its Service Lateral Installation Charges labeled "Staff's Recommendations in Table B.

**TABLE B**  
**SERVICE LATERAL INSTALLATION CHARGES**

Company Current Tariff	Company Requested Tariff		Staff's Recommendation	
Cost*	Service Line Size	Charge	All service laterals	At Cost***
	4 inch	At Cost**		
	6 inch	At Cost**		
	8 inch	At Cost**		
	10 inch	At Cost**		
	12 inch	At Cost**		
Note: (*) Cost to include parts, labor, overhead, and all applicable taxes, including income tax	Note: (**)Cost includes parts, labor overhead, and all applicable taxes, including income tax		Note: (***) Cost includes parts, labor, overhead, and all applicable taxes.	